

Fonterra Shareholders' Fund

Results for Announcement to the Market

Reporting Period	Six months to 31 January 2018
Previous Reporting Period	Six months to 31 January 2017

	Amount (m's)	Percentage Change
Revenue from ordinary activities	NZ\$44	(38)%
Profit (loss) from ordinary activities after tax attributable to security holder ¹	NZ\$-	-%
Net profit (loss) attributable to security holders	NZ\$-	-%

¹ Fonterra Shareholders' Fund financial statements are prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards. Revenue from ordinary activities comprises net fair value movements of Economic Rights of Fonterra Shares, and dividend income.

Interim/Final Dividend	Amount per Security	Imputed Amount per Security
Interim dividend	NZ\$0.10	\$0.00

Record Date	6 April 2018
Dividend Payment Date	20 April 2018

Comments	On 20 March 2018, the Board of FSF Management Company Limited declared a distribution of 0.10 cents per Unit to be paid on 20 April 2018 to Unit holders on the register at 6 April 2018.
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To be followed by the balance of the information required in the report pursuant to Appendix 1 – Including the Net Tangible Asset amount per security for the current and previous reporting period.

2018
**INTERIM
REPORT**
FONTERRA SHAREHOLDERS' FUND

FONTERRA
SHAREHOLDERS'
FUND.



CHAIRMAN'S REPORT

DEAR INVESTORS

I am pleased to present the Fonterra Shareholders' Fund Interim Report for the six months ending 31 January 2018.

For this six month period Fonterra's overall operating result was generally in line with expectations. The Ingredients business produced a solid result with a nine percent increase in normalised earnings before interest and tax ("normalised EBIT") despite low opening inventories and lower New Zealand milk collections. The Consumer and Foodservice business continued to move more volume to higher value in a number of markets and also increased sales prices of products, but these increases were not sufficient to offset the impact of higher dairy commodity input costs, especially for butter. This resulted in a 38 per cent decrease in Consumer and Foodservices' normalised EBIT. The overall result was adversely impacted by the outcome of the Danone arbitration and also the impairment of the Beingmate investment. Unit holders will rightly be disappointed with these two outcomes. The turnaround of the Beingmate investment is a key priority for senior management and the Board of Fonterra. The Co-operative's balance sheet remains strong.

As the return on a unit is driven by the underlying performance of Fonterra, I encourage you to read Fonterra's 2018 Interim Report, available online at www.fonterra.com/investor to gain a good understanding of the Co-operative's results.



On 20 March 2018, Fonterra declared an interim dividend of 10 cents per share. As a result, unit holders will receive an interim distribution of 10 cents per unit¹. The record date for the interim distribution is 6 April 2018 and the payment date is 20 April 2018.

The Distribution Reinvestment Plan (DRP) continues to operate at a discount of 2.5 per cent to the strike price. Eligible shareholders who would like to participate for the interim distribution need to submit a notice of participation by 6 April 2018.

More details on the DRP can be found in the offer document, which is available in hard copy from Computershare or online at www.investorcentre.com/nz and <https://www.fonterra.com/nz/en/our-financials/dividends.html>

The number of units on issue at 31 January 2018, was 137.4 million, representing 8.5 per cent of the total Fonterra Co-operative shares on issue. Trading in units continues to be strong, with the FSF ranked second on the NZX in terms of liquidity. On average, around 400,000 units were traded on a daily basis over the past six months².

Analysis of the unit register shows that New Zealand and Australian unit holders are the largest group by region, holding 86 per cent of units on issue³.

I would once again like to thank you for your continued support of, and investment in, the Fonterra Shareholders' Fund.

A handwritten signature in black ink, appearing to read 'John Shewan', with a stylized flourish at the end.

JOHN SHEWAN
CHAIRMAN
FSF MANAGEMENT COMPANY LIMITED

*(Australian Registered Body Number 160 539 935,
incorporated in New Zealand)*

¹ Less any PIE (Portfolio Investment Entity) tax or any other adjustments for tax in relation to that unit.

² Liquidity has been calculated as median daily value (6 months)/Average Daily New Zealand Free Float Cap (6 months).

³ Merlin Consulting Shareholder Identification Report January 2018

STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 JANUARY 2018

	\$ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2018 UNAUDITED	31 JAN 2017 UNAUDITED	31 JUL 2017 AUDITED
Net fair value gain on revaluation of Economic Rights of Fonterra shares	18	59	42
Dividend income	26	12	37
Investment income	44	71	79
Net change in fair value of liability to unit holders	(18)	(59)	(42)
Distributions to unit holders	(26)	(12)	(37)
Finance cost	(44)	(71)	(79)
Profit before tax	-	-	-
Tax expense	-	-	-
Profit for the year	-	-	-

There are no items of other comprehensive income.

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS

FOR THE SIX MONTHS ENDED 31 JANUARY 2018

	\$ MILLION
Net assets attributable to unit holders at 1 August 2017	763
Movements:	
Revaluation of liability to unit holders	18
Issue of units	122
Redemption of units	(51)
Net assets attributable to unit holders at 31 January 2018 (unaudited)	852
Net assets attributable to unit holders at 1 August 2016	637
Movements:	
Revaluation of liability to unit holders	59
Issue of units	132
Redemption of units	(64)
Net assets attributable to unit holders at 31 January 2017 (unaudited)	764
Net assets attributable to unit holders at 1 August 2016	637
Movements:	
Revaluation of liability to unit holders	42
Issue of units	179
Redemption of units	(95)
Net assets attributable to unit holders at 31 July 2017 (audited)	763

The accompanying notes form part of these interim financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 JANUARY 2018

	NOTES	\$ MILLION		
		31 JAN 2018 UNAUDITED	31 JAN 2017 UNAUDITED	31 JUL 2017 AUDITED
Assets				
Economic Rights of Fonterra shares	2	852	764	763
Total assets		852	764	763
Total liabilities (excluding net assets attributable to unit holders)		–	–	–
Net assets attributable to unit holders – liability	3	852	764	763

CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 31 JANUARY 2018

	\$ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2018 UNAUDITED	31 JAN 2017 UNAUDITED	31 JUL 2017 AUDITED
Cash flows from operating activities			
Cash was provided from:			
– Sale of Economic Rights of Fonterra shares	51	64	95
– Dividend received (net of dividends reinvested)	20	10	30
Cash was applied to:			
– Purchase of Economic Rights of Fonterra shares	(116)	(130)	(172)
Net cash flows from operating activities	(45)	(56)	(47)
Cash flows from financing activities			
Cash was provided from:			
– Proceeds from issue of units	116	130	172
Cash was applied to:			
– Outflows on redemption of units	(51)	(64)	(95)
– Distributions paid to unit holders (net of dividends reinvested)	(20)	(10)	(30)
Net cash flows from financing activities	45	56	47
Net (decrease)/increase in cash and cash equivalents	–	–	–
Cash and cash equivalents at the beginning of the year	–	–	–
Cash and cash equivalents at the end of the year	–	–	–

The accompanying notes form part of these interim financial statements.

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE SIX MONTHS ENDED 31 JANUARY 2018

A) GENERAL INFORMATION

The Fonterra Shareholders' Fund (FSF or the Fund) is a New Zealand managed investment scheme established to be the 'Authorised Fund' under Fonterra's Trading Among Farmers scheme. It is registered under the Financial Markets Conduct Act 2013 and its governing document is the Fonterra Shareholders' Fund Trust Deed (the Trust Deed) dated 23 October 2012 (as amended) and has a life of 80 years. Under the Trust Deed, the Fund may invest only in authorised investments, which are Economic Rights of Fonterra shares (Economic Rights), and issue units to investors. It may not invest directly in Fonterra shares (shares).

The Fund is listed on the NZX Main Board operated by NZX Limited and as an exempt foreign entity on the Australian Securities Exchange operated by ASX Limited. The Manager is an FMC reporting entity under the Financial Markets Conduct Act 2013.

These interim financial statements were authorised for issue by the Manager on 20 March 2018.

Fonterra interim financial statements

Investors are encouraged to read the interim financial statements of Fonterra Co-operative Group Limited (Fonterra), together with the interim financial statements of the Fund, given that the performance of the Fund is driven by the performance of Fonterra. The Fonterra interim financial statements can be found at www.fonterra.com in the 'Investors/ Financial Results' section.

Activities

The principal activity of the Fund is to acquire Economic Rights and issue units to investors. It allows investors in the Fund an opportunity to earn returns based on the financial performance of Fonterra.

B) BASIS OF PREPARATION

These interim financial statements have been prepared in accordance with International Accounting Standard 34: Interim Financial Reporting and New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting. They have also been prepared in accordance with Generally Accepted Accounting Practice (GAAP) applicable to for-profit entities. These interim financial statements are as at and for the six months ended 31 January 2018, and are unaudited.

These interim financial statements are presented in New Zealand dollars (\$), which is the Fund's functional and presentation currency, and rounded to the nearest million, except where otherwise stated.

The same accounting policies are followed in these interim financial statements as were applied in the financial statements for the year ended 31 July 2017.

C) OPERATING SEGMENTS

The Fund's investments only include Economic Rights assets and the Fund's performance is evaluated on an overall basis. Therefore the Fund is a single-segment entity. All of the Fund's income is from investments in the Economic Rights.

The internal reporting provided to the Board of the Manager, which is the Fund's chief operating decision maker, for the Fund's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of NZ IFRS. The Board of the Manager reviews the Fund's internal reporting in order to assess the performance and position of the Fund.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 JANUARY 2018

1 FAIR VALUE MEASUREMENT

The Fund measures fair values for recognition of both Economic Rights assets and unit holder liabilities.

The Fund uses the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques for which all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. The Fund has no Level 3 instruments.

The Fund's liability to unit holders is a Level 1 instrument as the unit price is quoted on the NZX Main Board, which is considered to be an active market. The Manager considers market prices to be the most representative measure of fair value as they are used by market participants as a practical expedient for fair value measurement. The market will be monitored on an on-going basis to confirm that it remains active for the purposes of establishing fair value.

Economic Rights are Level 2 instruments as Economic Rights are not listed and there is no active market for Economic Rights assets. Economic Rights are valued using the quoted price of units (which are considered to be a materially comparable instrument) in the Fund listed on the NZX Main Board. The on-going validity of assumptions relating to the comparability between a unit and an Economic Right is regularly reviewed.

There have been no transfers between the categories in the fair value hierarchy during any of the periods presented.

2 ECONOMIC RIGHTS OF FONTERRA SHARES

The Economic Rights are held on trust for the Fund by the Custodian under the Fonterra Economic Rights Trust.

	31 JAN 2018 UNAUDITED	31 JAN 2017 UNAUDITED	31 JUL 2017 AUDITED
Value of Economic Rights (\$ million)	852	764	763
Number of Economic Rights	137,366,342	123,422,471	126,047,304

The Economic Rights are measured at fair value, calculated as the number of Economic Rights held multiplied by the established fair value for each Economic Right.

	\$ MILLION		
	31 JAN 2018 UNAUDITED	31 JAN 2017 UNAUDITED	31 JUL 2017 AUDITED
Opening value of Economic Rights	763	637	637
Movements:			
Purchase of Economic Rights ¹	122	132	179
Sale of Economic Rights	(51)	(64)	(95)
Revaluation of Economic Rights	18	59	42
Closing value of Economic Rights	852	764	763

¹ Purchase of Economic Rights includes \$5.6 million for Economic Rights acquired in conjunction with Fonterra's Dividend Reinvestment Plan (31 January 2017: \$2.4 million; 31 July 2017: \$6.7 million).

3 LIABILITY TO UNIT HOLDERS

	31 JAN 2018 UNAUDITED	31 JAN 2017 UNAUDITED	31 JUL 2017 AUDITED
Value of unit holder liability (\$ million) ¹	852	764	763
Opening number of units on issue ²	126,047,304	111,991,937	111,991,937
Number of units issued ³	19,503,561	22,222,597	29,932,644
Number of units redeemed	(8,184,523)	(10,792,063)	(15,877,277)
Closing number of units on issue	137,366,342	123,422,471	126,047,304

¹ The liability to unit holders is measured at fair value, calculated as the number of units on issue multiplied by the unit market price of \$6.20 (31 January 2017: \$6.19; 31 July 2017: \$6.05).

² Included in the total number of units is one Fonterra unit which was issued at launch.

³ Included in the number of units issued are 934,040 units with a total value of \$5.6 million that were issued under the Distribution Reinvestment Plan (31 January 2017: 419,397 units with a total value of \$2.4 million; 31 July 2017: 1,148,243 units with a total value of \$6.7 million).

4 NET TANGIBLE ASSETS PER SECURITY

As at 31 January 2018, the net tangible assets per unit on issue was \$6.20 (31 January 2017: \$6.19; 31 July 2017: \$6.05).

5 COMMITMENTS AND CONTINGENT LIABILITIES

The Fund has no material commitments or contingent liabilities as at 31 January 2018 (31 January 2017: nil; 31 July 2017: nil).

6 SUBSEQUENT EVENTS

Declaration of interim distribution

On 20 March 2018, the Board of Directors of Fonterra declared an interim dividend of 10 cents per share. Following Fonterra's dividend declaration, the Board of the Manager declared an interim distribution of 10 cents per unit. This distribution will be paid on 20 April 2018 to the unit holders on the register at 6 April 2018.

The Manager has a Distribution Reinvestment Plan, where eligible unit holders can choose to reinvest all or part of their future distribution in additional units. The Distribution Reinvestment Plan will apply to this distribution. Participation in the Distribution Reinvestment Plan requires unit holders to submit an election notice for participation by 6 April 2018. Full details of the Distribution Reinvestment Plan are available in the 'Investors/Dividends' section of Fonterra's website.

Changes in unit price

Units are traded on the NZX and ASX and accordingly the unit price changes regularly, including during the period between balance date and the date these interim financial statements were authorised for issue. Changes in the market price of the units result in a corresponding change in the value of the Economic Rights asset held by the Fund. Daily unit prices are available on the NZX website.

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Andrew Corder

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Notice of event affecting securities

NZSX Listing Rule 7.12.2. For rights, NZSX Listing Rules 7.10.9 and 7.10.10.
For change to allotment, NZSX Listing Rule 7.12.1, a separate advice is required.

Number of pages including this one
(Please provide any other relevant
details on additional pages)

1

Full name of Issuer **Fonterra Shareholders' Fund (NS)**

Name of officer authorised to
make this notice

Andrew Cordner

Authority for event,
e.g. Directors' resolution

Directors' resolution

Contact phone
number

(09) 374 9000

Contact fax
number

(09) 374 9001

Date

20 / 03 / 2018

Nature of event
Tick as appropriate

Bonus
Issue

☐

If ticked,
state whether:

Taxable ☐

/ Non Taxable ☐

Conversion ☐

Interest ☐

Rights Issue
Renounceable

☐

Rights Issue
non-renounceable

☐

Capital
change

☐

Call ☐

Dividend ☒

If ticked, state
whether: Interim ☒

Full
Year ☐

Special ☐

DRP Applies ☒

EXISTING securities affected by this

If more than one security is affected by the event, use a separate form.

Description of the
class of securities

Units (FSF)

ISIN

NZFSFE0001S5

If unknown, contact NZX

Details of securities issued pursuant to this event

If more than one class of security is to be issued, use a separate form for each class.

Description of the
class of securities

N/A

ISIN

N/A

If unknown, contact NZX

Number of Securities to
be issued following event

N/A

Minimum
Entitlement

Ratio, e.g
① for ②

☐

for

Conversion, Maturity, Call
Payable or Exercise Date

N/A

Enter N/A if not applicable

Treatment of Fractions

N/A

Strike price per security for any issue in lieu or date
Strike Price available.

Tick if
pari passu

☐

OR

provide an
explanation
of the
ranking

Monies Associated with Event

Dividend payable, Call payable, Exercise price, Conversion price, Redemption price, Application money.

In dollars and cents

Amount per security
(does not include any excluded income)

Resident Inv (see note)
nil

Non-resident Inv (see note)
\$0.10

Source of
Payment

**Distribution pursuant to Clause 15.1(a) of the
Fonterra Shareholders' Fund Unit Trust Deed and
paid through Computershare**

Excluded income per security
(only applicable to listed PIEs)

\$0.10**nil**

NOTE: FSF is a Foreign Investment Variable Rate PIE. The whole distribution is excluded income for NZ resident investors. PIE tax (for resident investors) or NRWT (for non-residents) may be deducted at the rate appropriate for the investor

Currency

NZD

Supplementary
dividend
details -
NZSX Listing Rule 7.12.7

Amount per security
in dollars and cents

Date Payable

Total monies

Approximately \$14 million**Taxation**

Amount per Security in Dollars and cents to six decimal places

In the case of a taxable bonus
issue state strike price

\$

Resident
Withholding Tax

Nil (see note above)

Imputation Credits
(Give details)

Nil

Foreign
Withholding Tax

See note above

FDP Credits
(Give details)

Nil**Timing**

(Refer Appendix 8 in the NZSX Listing Rules)

Record Date 5pm

For calculation of entitlements -

6 April, 2018**Application Date**

Also, Call Payable, Dividend /
Interest Payable, Exercise Date,
Conversion Date. In the case
of applications this must be the
last business day of the week.

20 April, 2018**Notice Date**

Entitlement letters, call notices,
conversion notices mailed

N/A**Allotment Date**

For the issue of new securities.
Must be within 5 business days
of application closing date.

N/A**OFFICE USE ONLY**

Ex Date:
Commence Quoting Rights:
Cease Quoting Rights 5pm:
Commence Quoting New Securities:
Cease Quoting Old Security 5pm:

Security Code:

Security Code:

